



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Appropriation Bill 2008-2009 (No 3))

Members:

**MS C LE COUTEUR (The Chair)
MR B SMYTH (The Deputy Chair)
MS J BURCH**

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 4 MARCH 2009

**Secretary to the committee:
Ms A Cullen (Ph: 6205 0142)**

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Committee Office of the Legislative Assembly (Ph: 6205 0127).

APPEARANCES

ACT Health	1
Department of Housing and Community Services	1
Department of Treasury	1

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Amended 21 January 2009

The committee met at 1.03 pm.

Appearances:

Gallagher, Ms Katy, Treasurer, Minister for Health, Minister for Community Services and Minister for Women

ACT Health

Cormack, Mr Mark, Chief Executive
Foster, Mr Ron, Chief Finance Officer
Kennedy, Ms Rosemary, Executive Director, Business and Infrastructure

Department of Housing and Community Services

Hehir, Mr Martin, Chief Executive
Hubbard, Mr Ian, Director, Finance and Budget
Collett, Mr David, Director, Asset Management

Department of Treasury

Smithies, Ms Megan, Under Treasurer
Ahmed, Mr Khalid, Executive Director, Policy Coordination and Development
Bulless, Mr Neil, Executive Director, Finance and Budget Division
Broughton, Mr Roger, Executive Director, Investment and Economics Division
McNamara, Mr Jason, Director, Economics Branch

THE CHAIR: Good afternoon everybody. Most of us are here; so I now formally declare open this public hearing of the Standing Committee on Public Accounts inquiry into Appropriation Bill 2008-2009 (No 3). On behalf of the committee, I thank the minister and the very large cast of departmental officials for turning up at such short notice. We appreciate it very much. Today we are going to examine the appropriation bill firstly in relation to the items under the responsibility of the Minister for Health, then the Minister for Community Services and we will conclude with the Treasury portfolio.

I would imagine that all of you are aware of the privilege card and I will not bore you by reading it. If you are not, when you come up to speak, there is a copy at each desk. Before we proceed with questions from the committee, minister, do you have an opening statement?

Ms Gallagher: No, thanks. I am happy to proceed to questions on ACT Health.

THE CHAIR: Thank you. In that case, I would like to start on cancer services, on page 77. You said that \$395,000 is going to be spent on oncology clinics and cancer services facilities. What exactly is that going to be?

Ms Gallagher: I have just finished my visit to the hospital where I visited the Capital Region Cancer Service and indeed got the opportunity to look at the oncology pharmacy as well, which is the other initiative in the appropriation bill. The Capital Region Cancer Service is experiencing significant increase in demand for service.

We have had a major upgrade to the radiation oncology area. It was a \$30 million

project to put in the new linear accelerator. We have put on additional staff, including staff specialists in cancer, to deal with some of the increase in demand for service. Essentially what you are seeing there is a response to increasing demand and the need to create some better use of space within the areas that are provided as we embark on a significant upgrade of the cancer centre in years to come. This is a transition project in terms of providing some additional clinic space and some office space for our staff specialists.

Mr Cormack: Just to add to the minister's summary, oncology services, in particular, have been experiencing high growth. In fact, around 10 per cent is the growth rate we are dealing with in medical oncology and radiation oncology, which requires a capacity for both space and staffing. So we have targeted an area in building 3 at the Canberra Hospital. It is currently used as office space and we will be converting that back into some treatment spaces more closely aligned with the existing cancer areas.

As the minister has identified, that will mean we will need to relocate those offices to a less clinically critical area to be able to house the staff that are required to run the additional services. That will certainly give us the interim increase in capacity for cancer services and we are hoping to get onto that very quickly.

THE CHAIR: Will this reduce the number of people that have to go to Sydney for treatment?

Ms Gallagher: This initiative itself will not. Other initiatives have funded that in terms of increases in the numbers of staff, particularly medical staff, that we have working in the Capital Region Cancer Service. The growth in cancer is traditionally funded through the budget. This is responding to some space issues that we have right across the hospital really. We have space issues across the hospital. Everywhere is operating to full capacity and this is just to, I guess, better use the space that we have.

I should add that the Capital Regional Cancer Service is an integrated service and they are working across a range of disciplines. I understand that some of the ideas on the reconfiguration of this space is to, as much as we can, facilitate the integration of the service. In the short term, we will undertake the work that has to be done to build the integrated cancer centre which will be a purpose-built facility.

THE CHAIR: The linear accelerator is going to be the third in the ACT. Are we still expecting a fourth in 2012?

Ms Gallagher: When we undertook the project, we built the third and fourth bunker at the same time. There are two bunkers there, one with a machine in it and one without a machine. The data told us the machine would be needed in 2012. I think it is fair to say there are some views on whether we might need to bring that forward, based on the increasing demand we are seeing for radiation oncology.

THE CHAIR: This is just bringing it forward from 2012?

Ms Gallagher: There will be a fourth linear accelerator. I guess the question is whether it is in 2012 or whether it is in 2010 or 2011. It does take some time. You go on a worldwide waiting list for a linear accelerator.

MR SMYTH: On the cancer clinic, how many extra cubicles or areas would it provide?

Mr Cormack: We are just going to finalise that at the moment. There are an additional two consultation rooms, I am advised, but we might be able to do a bit better than that, depending on how we can relocate some of the staff areas as well. But that is what we are working on at the moment.

MR SMYTH: How firm is the \$395,000 if you are not—

Mr Cormack: It is firm. Yes, it is quite firm.

MR SMYTH: But if you do not know whether it is two or it might be more, how can it be quite firm?

Mr Cormack: We work on a square meterage basis. The square meterage that we are looking at is fixed and we are looking at operating within that square meterage envelope and we will get as many clinic rooms out of that as we can.

MR SMYTH: How many square metres is it?

Mr Cormack: I do not have that information available.

MR SMYTH: Could we have that provided?

Mr Cormack: We could do that.

MR SMYTH: But it does get back to the question: if the consultation rooms are of a set size and we put forward a set amount of money to equip them, how can we get more? If it is enough for two—

Mr Cormack: As I have said, we have identified a square meterage; we do our costings and our estimations based on a square meterage rate; and if we can accommodate more clinical space within that we will; but at the moment it looks like two additional treatment spaces. If we can get more out of that we will.

MR SMYTH: But if it costs \$395,000 for two—

Ms Gallagher: I think it is about putting the best use of the budget to the space available. So two—

MR SMYTH: Whether it is a guess or an estimate—and you are on record as saying a lot of this is guessing—the question is: \$395,000 would buy two—

Ms Gallagher: There is a budget and there is a space and we will use the money to make the best use of that space. If that can get us more than two clinical treatment areas, with the support and the agreement of the clinical staff, then we will do that. But at the moment it is expected that it would be a minimum of two additional clinical spaces, which will be very well received by the staff at the Capital Region Cancer

Service.

MR SMYTH: I do not doubt that.

MRS BURCH: I have a question on the improved cold storage facilities at the Canberra Hospital for the pharmaceuticals. That is an enhancement or replacement? What is that?

Mr Cormack: It is largely both a replacement of some ageing equipment and some improved facilities for pharmaceuticals, because pharmaceuticals are very expensive. This is about, I guess, reducing the risk of failures in our refrigeration. It is a part of our forward maintenance program where we undertake a regular program of risk assessment of our facilities and this will give us better capacity and reduce the risk of loss and consequent impact on supply of pharmaceuticals. It is keeping us safe and operating efficiently and making sure that we are able to continue to supply pharmaceuticals in a timely manner.

MR SMYTH: Have there been pharmaceuticals lost because the cold storage is not adequate?

Mr Cormack: There have been instances where we have had some pharmaceuticals that have had to be, I guess, replaced due to the failure in the refrigeration and that is part of the reason for doing this work. We have a lot of refrigeration units across our health facilities, both for immunisation-related vaccines and core pharmaceuticals. As I said, we need to make sure that we reduce the risk of this loss in the future.

MR SMYTH: Can the committee know what the quantum of the loss has been over the last two financial years?

Mr Cormack: I am happy to take that one on notice.

MR SMYTH: Minister, you said in your tabling speech in regard to this line that these are necessary minor works. When did they become necessary?

Ms Gallagher: I think what we have gone to is our own planning processes which detail minor and capital works and every department has a list of those that they work through in terms of keeping on top of the work that needs to be done. When we looked at this appropriation, agencies first looked at those lists in terms of what work there was available to bring forward in a pretty quick way and respond to as part of the whole aim of the third appropriation.

MR SMYTH: That is fine. But when should these facilities have been replaced, the cold storage facilities? Are they machines that are beyond their useful life, are they beyond their safe working life?

Ms Gallagher: Not as I understand it, no. They were on the list of things that would need to be done as part of our routine capital upgrades.

Mr Cormack: It is not our practice to operate with things beyond the safe operating periods.

MR SMYTH: We are also looking at the 2009-10 financial year capital upgrades and on page 31 there is a list of capital upgrades in health of about a dozen different lines. Is it possible to get more detailed explanations of each of those? Something described as “disability access works, non-acute sites stage 1” does not mean a great deal. Is it possible to get a detailed breakdown of each of those dozen or so lines?

Mr Cormack: We might call upon Rosemary Kennedy, who is our executive director of business and infrastructure.

Ms Kennedy: As an outcome of the disability audit process we have scheduled a series of works to be undertaken through the capital upgrades program based on the existing capital asset development plan program of work so as not to double up on any planned work for the future. So we are dovetailing that in with the existing capital asset development plan to undertake the most appropriate works.

MR SMYTH: That is fine but, rather than go through them line by line, is it possible to get a more detailed description of each of those lines? We could spend the next day on—

Ms Kennedy: Yes, we can do that.

THE CHAIR: No more health questions? Thank you very much to those from the health portfolio. We will move on to community services. We have got to rush through fairly quickly. Do you have an opening statement—

Ms Gallagher: We are here again. No, I am happy to just keep going with the questions.

THE CHAIR: Okay. I understand there is going to be work done on two childcare facilities for west Belconnen. Have you looked at Flynn primary school as an alternative to the two that you are looking at? We have certainly received representations suggesting it would be a better alternative.

Ms Gallagher: The money in the third appropriation is \$435,000 to progress the forward design for two new childcare centres that we made some announcements on as part of the election. In that context the commitment was around one in west Belconnen and one in Weston Creek, which is where some of our data is certainly indicating the need for additional childcare services.

There are views particularly around the west Belconnen site. There is certainly some view that it needs to be close to Dunlop as having, I think, the highest level of under-four-year-olds in that area. There are some views from existing childcare providers about some land in Charnwood and then I have also had representations recently around the use of Flynn primary school.

My correspondence with the organisation that is seeking to have Flynn primary school used was that we had not considered that as a potential site because of the legal action that was being undertaken and I certainly did not want to be seen to be acting in an inflammatory way by pre-empting any of those processes. In addition, there has been

an application sought for heritage listing. So I have responded saying that there are these things outstanding that would need to be finalised before we would consider its use as a childcare centre. They wrote back to me last week wanting to meet with me so I think that is probably the best thing that I do in terms of progressing that discussion.

This work is really to design the facilities but also to finalise the appropriate location for them. I guess we do not have a predetermined view of where that should be. I have some ideas of where people want it to be, but I think that is the reason behind this work.

THE CHAIR: Okay. Given you construct these at whatever site, what measures are you going to put in place to ensure that you can find staff for the centres, because that would seem to be an even greater problem?

Ms Gallagher: Yes, staffing in childcare is a huge problem. That probably is more relevant to the education and training portfolio. There has been quite a lot of work done at the CIT—just from my previous portfolios—in terms of attracting people to study the childcare qualifications. I do not think there is any problem getting them into those courses; it is getting them to choose to stay in childcare and work in childcare.

Pay and conditions really are the issues that need to be addressed in terms of the workforce and they are difficult areas for the ACT government to influence as it is really the commonwealth that has the levers in relation to the childcare benefit and the fees that are paid for childcare—the parents' capacity to pay. But they are things that we will discuss with industry as we progress around building these new facilities. I know there is some interest from existing community-based providers who may be looking to expand or extend; there might be some partnerships we can work on.

MR SMYTH: Just on the additional childcare places, will the \$435,000 be spent in-house, or in the department, or will it go out to tender?

Mr Hehir: That will be tendered out. We will get consultants, architects, engineers and planners to do the work that the minister has described.

MR SMYTH: So it is to find and then design the actual facilities?

Mr Hehir: Yes.

MR SMYTH: On the community and childcare facilities upgrades, could we have a list of which facilities will be upgraded and what work will be done on each?

Ms Gallagher: Yes.

Mr Hehir: Yes.

MR SMYTH: Thank you. And in the environmental upgrades have energy audits been done on these facilities before the upgrades will be done?

Mr Collett: Yes. That work has been scoped on the basis of the audits that we have done.

MR SMYTH: And of the \$900,000 what percentage will be equipment and what percentage will be labour?

Mr Collett: That will vary from site to site. We will tender that work out. It will not be until we get the tenders back that we will be in a position to detail what percentages are based on which. There will be materials as well as equipment. There will be piping, hosing, bricks, nails et cetera as well as the labour to put that in place. If we were to break down those figures, it could only be done retrospectively after we got the prices in.

MS BURCH: On the upgrades, in addition to the list, how were the sites determined? What was the process for determining upgrades at which centres?

Mr Collett: We have already done some work on the adequacy of the assets and their need for ongoing maintenance. As well as that we have a regular review process with the operators where there is a single operator of the facility, and have an understanding of what is affecting their tenancy and their performance in the delivery of services within the centre. In the case of childcare centres and a number of the other facilities that we have got, we have also got licensing and BCA requirements. So it is an ongoing process. We have an annual program of maintenance and over the last few years we have had some minor capital works money that we have also been able to apply. So we have been able to bring forward projects that we have already identified as needing works.

THE CHAIR: Mr Smyth, do you have any more questions?

MR SMYTH: I will put most of them on notice given the short time. Minister, in regards to Mr Collett's answer that we will not know until retrospectively what percentage was spent on labour and protecting jobs, you have made great store that this whole supposed stimulus package is about protecting existing jobs. If we do not know now what percentage of, for instance, that \$900,000 will go on jobs, how can you say that this will be protecting local jobs?

Ms Gallagher: Because this work will go out to businesses that employ people to do the work. Yes, they will have to buy some stuff to do the work with, but we will still need the people to do the work. If we had not made this appropriation we would not be providing that work to businesses in order to do it. It is pretty simple.

In responding to questions from the opposition, it is difficult to give you a number of how many jobs you save or how you measure the impact of this bill. Whilst I would like to be able to sit here and say it will save 100 jobs or 200 jobs, that is very difficult for me to say. What I can say is that we are responding to areas within the community, particularly within the building and construction community, where concerns were being raised about work over the next six months. We have responded with work that we were going to have to do at some point in time, by bringing that work forward. Use that whatever way you will.

MR SMYTH: But, if you do not know how many jobs it will save or protect, how can we as a committee—

Ms Gallagher: So that means you do not do anything; you do not respond?

MR SMYTH: I did not say that. That is your response. I am saying that the basis of your tabling speech is, “This will protect local jobs.”

Ms Gallagher: Okay, yes.

MR SMYTH: You cannot tell the committee how many jobs it will protect?

Ms Gallagher: So \$900,000 going into energy efficiency upgrades—

MR SMYTH: So how do we assess the effectiveness of this bill?

Ms Gallagher: going out to the private sector, to builders and apprentices to do the work, is work that they did not have before. They were genuinely worried about having gaps in their schedules and having to lay people off. As I said, I would love to sit here and give you a figure on exactly how many jobs this is going to maintain, but I cannot do that. It will be difficult to measure in terms of the test that you will set against this bill, but what I can honestly sit here and say is that industry were telling us they needed us to respond, and we have responded, in a pretty measured way, a pretty small way—all work that we were going to have to do anyway but bringing that work forward.

I think you will see from industry’s response to this appropriation that that is what they have welcomed. They have welcomed the fact that we will, hopefully if this Assembly passes this bill, bring forward \$25 million of work that may have waited until May, or even the budget after, to be done; that they can get on and do it now.

MR SMYTH: But we as a committee are charged with assessing the effectiveness of this bill.

Ms Gallagher: That is right—and if you can find some inadequacies in that I am sure you will.

MR SMYTH: I am asking the question. You have made jobs a priority—

Ms Gallagher: I have answered your question. You have asked me how many jobs and I have said it is impossible to give you an exact figure, and I know how you like exact figures. What I can say is that this is seeking to maintain employment, to ensure that businesses have some work. Traditionally, I understand, in a job like this, I am advised, of that allocation it would be 50 per cent labour and 50 per cent materials.

MS BURCH: And the materials purchased locally, one would assume, through local businesses?

Mr Hehir: One would anticipate that most of the materials would be acquired locally so you would certainly expect some level of retail flow-on from this process as well,

yes.

Mr Collett: To elaborate, not all of the jobs will be on the building site. Frames, stud work, some of the plumbing saddles and equipment that is made up ready to be brought onto the site will be done by tradespersons and apprentices working in factories. There will be a mixture. But of course those labour dollars cannot be spent unless there is something for the labourers to work with—

MR SMYTH: Sure, but I am just trying to work out what percentage will actually be labour.

THE CHAIR: Okay, thanks. One possibly quick final question: you mentioned energy efficiency as one of the criteria that you would be looking at in working out what childcare facilities you upgrade. Have you got a standard of some sort for energy efficiency for the facilities and could you let us know what it is?

Mr Collett: No. That is done on an assessment of facilities, by facilities. The process of energy rating non-residential buildings is newer. We can identify areas such as the hot water units or the heating or cooling that are behind current standards. We can identify areas of glazing that are not protected. That is the work that was done through our audit process. But at this stage we do not have a star rating for the community facilities as such.

THE CHAIR: Thank you very much, Department of Community Services. We will now have another brief interlude and will then come back to speak with the Treasurer.

Short adjournment.

THE CHAIR: I will reopen this public hearing into the Appropriation Bill 2008-2009 (No 3). We are talking to the Treasurer in this instance, as distinct from all the other entities we have been speaking to earlier today. Treasurer, I would like to invite you to make some opening remarks on the bill.

Ms Gallagher: Thank you, Madam Chair. The origins of the third appropriation really came out of the government's roundtables that we hosted very soon after forming government, in November and December last year. It was clear in those discussions that there was a level of concern—that might be too harsh a term—or certainly some comments from the groups we were consulting with around the first half of this year, and really in the second quarter of this year. Many of those representatives told us they were very confident about work and work plans up to about February and March but that after that there was some emerging capacity within some areas. There were growing levels of understanding that there would possibly be businesses without work and that perhaps apprentices would find it more difficult to find employment.

They were the discussions we had, and we were certainly given representations by industry that if there was any opportunity for the ACT government to respond locally then that would be appreciated. Of course, having our own budget issues, with the effects of the global financial crisis, does restrict, in some ways, the way in which we could respond. We had a number of criteria for putting the third appropriation

together. One of those was that it did not provide any additional burden for our operating budget. So, in a sense, that restricted it to capital projects. That does have a very mild impact on our operating budget, but much less so than any funding of recurrent services.

The six criteria that we focused the appropriation on were that the work would provide some measure of job support to the local industry; that it extends the useful life or improves the life of our own asset base; that we utilise the potential emerging capacity in the building and construction sector; that projects be at a mature stage of design and/or procurement to enable the works to begin as soon as possible; and also that once they were commenced they be undertaken and completed on time and on budget.

Those were the parameters for putting together the third appropriation. The individual initiatives have been assessed against those criteria and, in the end, I think we came up with a modest but responsible package which has overwhelmingly been endorsed by the industries it seeks to support. I am happy to take further questions.

THE CHAIR: Thank you. My first question goes to: why is there the considerable focus on construction? I appreciate that the construction industry is an important industry, and I am not trying to say anything about that. I have just got a few points. To what extent do you have evidence that the construction industry is having problems? The headline for an article in Sunday's *Canberra Times* was "Employers branded anti-family". It talked about there being too much work to be done in the construction industry—and if I try to get a tradesman to fix something around my house, I still cannot find one. What figures have you got about the downturn in the construction industry?

Ms Gallagher: As I said in my opening statement, we had a number of roundtables where we met with peak industry groups. In some ways it was through those roundtables but also through research that those groups had done with their membership around emerging capacity. The parameters of this budget were focused around those discussions and the research of those organisations.

With respect to the big end of town and the big projects that are underway, they are not concerned. They do say they have got enough work, but I think when you get down to the small operators, the family businesses, they are the areas where, certainly in representations from industry and from advice to the government, there was emerging concern.

The size of the package is small. The individual projects are fairly small. They are not going to be sought after by the big players in town. They are going to be targeted to those businesses where there is some concern. In a way, there is a level of anecdote that we are responding to, rather than hard-and-fast figures. But what is the alternative? We are trying to respond here to what industry is saying to us about particular emerging needs, and this appropriation goes directly to that.

I guess the alternative is that you do nothing or that you wait until they can demonstrate that they cannot employ apprentices or until they are laying off staff. We could wait, and that is something the government considered. But with the modest

package that we put together, and having regard to the fact that we consulted pretty heavily around the projects that were funded in this appropriation, we feel confident that it will meet the criteria we set. I go back to the fact that those industry groups that have sought this security from government have responded very positively to the third appropriation being tabled.

THE CHAIR: The other industry group that I would have thought would possibly be needing support is the IT industry. A combination of the global financial crisis and the Gershon report have left the IT industry in Canberra not nearly as cheerful as they were a year ago. There is nothing in this package for them. Have they made representations, and why construction and not IT?

Ms Gallagher: There certainly were some IT proposals that were considered, but they did not meet the criteria in terms of being at a stage that was ready to be funded by the government. So those projects needed further working through in terms of analysis from Treasury, and appropriate business cases were not ready to be included when we finalised this bill. Certainly, we are aware of some pressure there, and those areas will be considered in terms of the next budget. It would not have been responsible to put them in if they were not project ready. The detail was not finalised in time for this.

MR SMYTH: Just to follow up on that, it is not just the IT industry. Space sciences, biotechnology, public administration, environmental industries, creative industries, sports science and administration, education, defence and tourism are all industries that operate in the ACT but there is not a skerrick in this package for them. Will they receive assistance and, if so, when?

Ms Gallagher: We look at all of those areas as part of the budget every year. I go back to the fact that this work was designed against six criteria, and one of those was that the work should extend the useful life of the territory's own asset base—that we use this opportunity to improve our community assets, that we do not impact significantly on the territory's bottom line and that the projects are ready to go, so they have been worked up to a level where the government is confident around the costings and the ability to deliver. The projects that are funded in this appropriation fit those criteria.

With all of those other areas, I am not saying they are of less value or that they are not experiencing issues in the current economic climate, but they did not fit the criteria that the cabinet resolved around putting this bill together and the purpose of the bill. But that is not to say that we are not listening to concerns. I have attended a number of business breakfasts, including where I have had issues raised with me around tourism, but those are more appropriately dealt with in the budget, and that is where they will be dealt with.

MR SMYTH: So for all the roundtables that the government had, only those that involved the building industry had things that could be brought on immediately? There was never—

Ms Gallagher: The roundtables were around a whole range of things. They were not just around the appropriation. I held my own roundtable around infrastructure. The Chief Minister has held a number of roundtables and so has the Minister for

Education and Training. All the responses to those roundtables were never going to be dealt with in a third appropriation. The idea around a third appropriation grew out of a particular roundtable where issues were raised around the building and construction area. Other initiatives did come in and were considered by government, but they were not at the point where they were ready to be included in a bill being considered in the Assembly in February.

MR SMYTH: This was first talked about in December and the budget itself that you talk about will not be passed until the end of June—a wait of seven months. Have Treasury or the government done any work that says all of these other industries that are important to the ACT can survive until after July this year without any government assistance?

Ms Gallagher: That work is ongoing and Treasury are involved in those discussions. We set some very strong parameters around our appropriation bill, and we stuck to them because we had to, because of difficulties with our own budget. The big decisions, including any big capital appropriation, major spend or considering our revenues and our expenditure, are going to be taken in the budget. That is the appropriate place for them to be taken, because it will be dealing with significant expenditure, potential revenue and how we respond to our community's needs within the global financial crisis.

It looks at absolutely everything, and this does not. This deals with those six criteria that I take you back to. It does not do everything for everybody. It would never have been able to do that, but it does enable us, within the capacity that we have, to respond to a particular area where there were emerging issues. I am not saying that there are not emerging issues in other areas, but this bill was kept modest and under strict criteria in terms of not impacting on our budget in a way that would adversely affect our bottom line any more than it has already been adversely affected. The big decisions will be made in the budget proper, and that process has already started.

MS BURCH: The feedback from industry is positive, but is it broader than just the construction industry feedback, given Mr Smyth's comments?

Ms Gallagher: It has been. The chamber have been very positive about it. As they say, if people are maintaining their employment and get cash in their pockets, they will inevitably go and spend some of that. So that will have a flow-on effect to other areas of the economy. At the end of the day, it will be very difficult to argue that this \$25 million is not worth spending. It will be easy to say there are other areas it could have gone to. You could have made the appropriation as big as you wanted to, but I do not think that would have been the responsible thing to do in the current climate, and in the context of a formal budget process where we take submissions from right across Canberra, from across the community, and we consider it in a whole context.

MS BURCH: I was going to ask about the criteria but Ms Gallagher outlined that in her opening statement.

THE CHAIR: The obvious supplementary from what you have just said about IT is that there were some projects which might be ready soon. I note that you have got capital works pre-announcements. Could you not do the same with the IT industry and

give them some reason for hope into the future?

Ms Gallagher: Going through the budget process, as Mr Smyth will know, the initiatives come up with business cases. Those business cases are worked through between agencies and Treasury to attach some rigour to them—not that they do not have rigour from other agencies but Treasury rigour is then applied to the budget bids. So, by the time they reach the cabinet table for consideration, risks have been identified, problems have been identified, advantages of the project have been identified, and they are considered in that context.

The IT projects that were not agreed to as part of this appropriation had not got to a sufficient stage for that business case to be able to be done. So, yes, you could have appropriated the money, but were you doing it with your eyes open? Was the work to a satisfactory level so that the cabinet was confident about the details of that business case? It had not reached that point yet. That is not to say we would not do that or that we would not fund them in the next appropriations. It just was not ready for this one. We need to do some more work. That happens all the time in budgets.

Ms Smithies: I can add a little bit to that around the IT industry and some of the rationale. Certainly, to reiterate what the Treasurer has outlined, everything that the government is investing in is its asset base. So not only are we putting jobs out to the market which underpin labour, but also they create our asset base, so it is investments that the government would have had to have made in any case, in the assets that are actually used to deliver services to the community.

One of the things we talk about when we talk about the IT industry—and I will come back to the Gershon report in a second—and a lot of the other industry issues mentioned is that a lot of those responses would have had a direct impact on our bottom line. It would not necessarily, although it could possibly, have been invested in our own assets. This is expenditure or investment that we would have done, whereas a lot of the other responses that you are mentioning are in the vein of responses that would not otherwise have been contemplated except for the economic circumstances that are prevailing. I think that, in itself, provides a need for greater rigour. I also put it in the context of what we see right now in the economic statistics, of unemployment that is still near record lows. So we are not starting to see those job losses flow through our employment data yet. That is not to say that they will not, and our forecasts for employment growth are certainly low across the forward estimates, but we are not seeing those job losses yet. What the construction industry is telling us is that they are nervous about the next three months.

When we couple this package with a forward commitment to the government's capital upgrade program, that provides a huge degree of certainty for the industry in terms of the total level of investment that is going to be put to the market in the next six months. On top of that there are obviously the capital works decisions that will come through the next budget and on top of that there is the existing capital program that is in the system.

With respect to the IT industry and the Gershon report, the consequences of that will largely, I suspect, be felt by small IT providers here in the territory. The commonwealth implementation timetable for that report is, from memory—and I have

not had a recent brief on this—over 18 to 24 months. Again, there is a lot of nervousness in that industry, but it is unclear exactly what the commonwealth is going to do in response to its own report.

Again, it is a matter of caution in terms of what the territory response should be—if the territory should respond at all—to a report the detail of which the commonwealth itself is still trying to work through. Added to that, the territory does not invest in IT for investment in IT's sake. There obviously needs to be a business need that is being generated through the business of the departments which are providing services to the community. So we cannot just generate a need to support an industry unless there is a confluence of outcomes here. If we are not talking about that then we are talking about industry support through an economic downturn and, based on our figures, we have not quite got there yet.

All of this points to a little bit more caution around how we deal with the issues that you have raised in the context of the coming budget and, indeed, budgets coming after that, I suspect. But it provides a bit more granularity as to why we have laid a lot of those issues aside for the budget context and why we have concentrated on bringing forward the work that invests in assets that we would have had to do in any case, in order to provide certainty to a particular sector of business.

THE CHAIR: You said it was only capital expenditure that you wanted to do because that was responsible from a budget point of view, but looking at it from a cash flow point of view, which, being from a business background, I tend to do, it makes no difference whether it is capital or recurrent expenditure; it is still money out. Why did you decide not to spend any money on the territory's bigger assets—for instance, putting some money into aged-care assistance? Every time I go to my parents' nursing home, there are not enough staff there. I know the commonwealth is the largest funder of that. In education as well, we keep hearing stories from people about more assistance being required, particularly for disabled children. There are a lot of other areas where the territory could spend money and, while it would not increase their asset base in terms of bricks and mortar, it would increase the asset base in terms of the people of the territory. Maybe we should look at some of that sort of expenditure, and not just at the construction industry.

Ms Gallagher: Those sorts of areas will be considered as part of the budget. There is no doubt it is going to be a pretty difficult budget. We are already in deficits. The midyear review forecasts deficits for the forward estimate period, and significant deficits. So the decision that I have taken as Treasurer is that in this third appropriation we were not going to take decisions that were going to further deteriorate our operating budget, our recurrent spend every year. I think that is a wise decision. In the context of the issues we face we have got a number of commitments we have made to the community. We have got a number of commitments we have made with our friends the Greens. We have got a number of base pressure issues which governments experience every year across departments. And we are already in a deficit situation.

So there is no shortage of wish lists for the recurrent spend. I just think that those discussions have to be had as part of the formal budget process in terms of everything being on the table and everything being looked at. You look at revenue, you look at

expenditure, you look at savings, you look at the initiatives that people want, including the community consultation submissions. You look at the agency bids and at your own wish list. At the end of the day, after many hours of meetings, you come up with the final budget. That is the appropriate place to have those discussions.

The appropriation that we are considering today was introduced in February; hopefully it will be supported in March. We have already started the formal budget meeting process. That will continue for the next two months, before the budget is tabled in early May. So there are not big time gaps. Yes, in terms of the appropriation bill, if our formal annual budget is passed in June, that is a three-month period between this appropriation passing and the budget. I just think that, having regard to the times we are experiencing, we could not look at specific projects in isolation from the bigger picture.

MR SMYTH: You have spoken a number of times about the effect of this package on the budget bottom line. What is the deficit currently and what will the effect of this package be on the deficit?

Ms Gallagher: In terms of its recurrent impact, it is about \$700,000 in a full year, from memory. Is that right?

Mr Bulless: Yes, that is right.

Ms Smithies: Yes.

Ms Gallagher: The deficit at the moment: our published figure, which is the one we are working off, in the midyear review, was a deficit next financial year of \$98 million to \$100 million. Since that time there has been a further interest rate reduction and there has been a further revision down of GST revenues equal to about another \$65 million.

MR SMYTH: That is okay for the next financial year. What about this financial year? The Assembly is being asked to pass this package in this financial year. What is the estimated deficit at this time?

Ms Gallagher: We have not published a figure on that, but again I think the midyear review forecasts a small surplus of \$15 million. The impact of the revision of commonwealth GST revenue is about \$32 million. That would not include the interest rate reduction?

Mr Bulless: No, that is just the GST.

Ms Gallagher: A part-year effect of an interest rate reduction. So we are in deficit this year as well.

MR SMYTH: Okay, but what is that number?

Ms Smithies: We have not updated the outcome figure for this year as yet, so the last published estimate was a surplus of \$15 million. There are a number of things which point to a deterioration in that result, being the ones that the Treasurer discussed

around the GST revenue and the interest reduction. On top of that, there is also going to be some money coming in from the commonwealth in relation to the COAG reforms and the nation building package more than likely this financial year. So these numbers will go up and down, while at the moment our latest forecast is actually for a surplus.

MR SMYTH: But that is at the end of December. We are now into March. I have seen a figure attributed to you of \$17 million reported. I have seen another figure of \$29 million reported in an article when this package was out. Is there—

Ms Gallagher: Yes. I think that was a mistake by the *Canberra Times*.

Ms Smithies: I guess you can give a running commentary on this.

Ms Gallagher: Yes, it is day by day.

Ms Smithies: The running commentary is that our last published estimate was a \$15 million to \$17 million surplus. If you take off the commonwealth GST revenues, I think we were down to—

Ms Gallagher: Negative 17.

Ms Smithies: negative \$17 million, plus that component of interest, and then you can add on some money from the commonwealth. We could go on and on and on.

Ms Gallagher: It is changing.

MR SMYTH: So you cannot update the committee as to what the current state of the deficit or surplus is?

Ms Gallagher: Other than the information we have just provided you. We would not normally. There are—

THE CHAIR: I think we will stop it there because they actually cannot answer the question.

MR SMYTH: Well, they should be able to.

Ms Gallagher: There are processes that you follow.

Ms Smithies: Yes and I make the other point that, under any scenario we are talking about, the variance of one per cent, two per cent on a zero base rate—we are talking about what is essentially a balanced budget. It might be slightly in surplus, it might be slightly in deficit, but we are talking around that mark.

Ms Gallagher: And the \$29.8 million—I do not know where that figure has come from; it is not attributed to me in any way—I think was the *Canberra Times* counting this appropriation and then subtracting it from the midyear review. I think, but I have not followed that up with the *Canberra Times*.

MR SMYTH: Just to go a little further, there are no borrowings to accommodate this package?

Ms Smithies: No.

MR SMYTH: What analysis has been undertaken of the effect of this package on the financial position of the ACT, particularly in regard to the credit rating?

Ms Smithies: The package across two years is a \$25 million package—\$25 million in the context of the territory's balance sheet—

Ms Gallagher: We have got bigger problems than this—

Ms Smithies: and a negligible impact on the operating results. It is not going to cause the credit rating agencies a moment's pause; that is my belief. What is going to cause them the moment's pause are, like with every other state budget, the huge reductions in revenue and the huge revaluations of our financial assets.

MR SMYTH: Sure, and, as the Treasurer of Queensland said when they lost their AAA credit rating, "Declining revenues and structural operating expenditures are the reason for the AAA+ rating, the lowest of any state in Australia." He then went on to say that he "expects other state governments"—I assume he means territories there—"would suffer similar downgrades soon" and dismissed speculation that Queensland would struggle to borrow any money. Will you guarantee that we will maintain our AAA rating?

Ms Gallagher: No. I think you understand, once you take the politics out of it, how difficult that would be for me to give you that undertaking now. I will say that we want to retain our AAA credit rating but in the times that we are seeing I cannot sit here and honestly give you that undertaking.

MR SMYTH: So if we lose the AAA what is the impact on the interest that we pay on borrowings?

Ms Smithies: At the moment our borrowings program is relatively minor in the context of our total balance sheet again. Our borrowings program moving forward: there is some normal commercial paper that we will be rolling over and there is perhaps a bit of additional debt that we would be wanting to take on board back to back with the Actew debt. It is possible that it will cost us more but we are already paying more for our borrowings right now, and it has got nothing to do with the state of our finances and everything to do with the state of the liquidity across Australia and across the global market.

MR SMYTH: But if we lose the AAA the rate goes up? The minister just said she cannot guarantee we will not lose the AAA.

Ms Gallagher: Nobody can.

MR SMYTH: You are the Treasurer.

Ms Gallagher: Yes, and I take my responsibilities very seriously, but you always ask questions that are impossible to answer. That is one of your skills, Brendan, as a member of the opposition—one of your few skills, I will add in, but—

MR SMYTH: We can get catty; but you are the one that has not brought forward a package to secure the AAA rating.

Ms Gallagher: I always answer questions honestly and my honest answer to that, outside of the context of the fact that the budget has not been put together yet, is that I cannot give you that undertaking. The undertaking I can give you is that we want to keep it and we will work hard to keep it. In fact, two nights ago I read last year's Standard and Poor's ratings report on the ACT—quite enjoyable reading for Treasury documents—which was published on 28 September 2008, right in the thrust of the election campaign. Are those reports public?

Ms Smithies: Yes.

Ms Gallagher: Good. That painted a very positive picture of the ACT budget. It talked very strongly and about our revenue. It had no—

MR SMYTH: But at that stage you were guaranteeing four years of surplus. The Chief Minister was saying there was \$3 billion worth of construction; we have got a boom.

Ms Gallagher: Standard and Poor's, I noticed, did not notice the whole thing that you allege you saw and did not respond to either; that had not quite been picked up by the ratings agency by then either, I noticed in their report. But, anyway, that goes to the point that the answer to the question is that on 28 September last year the world was a very different place. The ACT budget was in a very different place and Standard and Poor's, in their outlook, saw our budget growing stronger and stronger. That is not the case now. I answer those questions you ask honestly and I am sure I will be punished in a media release soon authored by you. I look forward to defending myself.

Ms Smithies: To come back to this, this is \$25 million going into our balance sheet. Largely, we are substituting a fixed asset from cash. The credit rating agencies are not going to pause over this issue.

THE CHAIR: I would just like to pick up on one small point you made which intrigued me. You said the cost of borrowing has gone up and my understanding is that the Reserve Bank has been lowering interest rates.

Ms Smithies: The cash rate has gone down but the cost of borrowing for anyone trying to seek finance has actually gone up, largely because of the liquidity crisis globally. A lot of the major banks, major lending institutions, just cannot get liquidity, cannot get funds, and in that case we are essentially rationing funds across the global markets.

THE CHAIR: And we are being rationed?

Ms Smithies: Everyone is, I guess.

THE CHAIR: Yes, inevitably. I will ask you a question and I think I know the answer to it. You have basically been saying that we are bringing forward expenditure we would have made at some stage in the future, which is all very well if this is a temporary crisis that we have got. If this is not a temporary crisis and things continue like this and we have just brought forward expenditure, what happens next?

Ms Smithies: At which point I look across and I am assured by everyone who loves the art of economics or the science of economics that every cycle has its ups and downs.

Ms Gallagher: In addition to that I would say that we have responded at a particular time. If we have to respond again, you do. But we are watching how things progress. We are looking at what is happening across the country. We are looking at our own budget. We have to take decisions around how we move from deficit to surplus. We can only respond, I guess, at a point in time. We have done it with this, but that is not to rule out further responses if they are required, but within the confines of our capacity to respond, I would say.

Ms Smithies: And I add to that that the budget still retains an awful lot of strength in it, notwithstanding the reductions in GST and other revenues. The cash that has been put aside and been hardwired across the budget in forward estimates for capital works and investment is larger than it has ever been in a territory budget before and that will continue to make investments in the economy. There is still a fair amount of strength in this budget moving forward so there will be adjustments as we move through the budget process; there has to be.

MR SMYTH: The issue of toxic assets in portfolios of investments came up recently, particularly the AIG crash yesterday.

Ms Gallagher: Sorry, what was that bit?

MR SMYTH: “Toxic assets” has been the buzz word in the media in the last couple of days. What have we got in our portfolio of investments at risk and do we have any toxic assets?

Ms Smithies: We do not have any toxic assets—

MR SMYTH: No?

Ms Smithies: or we cannot tell you that on the fly.

Mr McAuliffe: Our portfolios are invested across a range of assets. In terms of some of the issues that arose through the financial crisis, we have not had any direct exposure to things like hedge funds or subprime debt in any of our portfolios. But in terms of our equity investments, we do have exposure to a range of companies, and they include some of the financial institutions. To the extent that they may have some bad debts within that organisation that affects their share price and ultimately their strength, we will have some degree of exposure there. But we have a diversified portfolio and the idea is that, to the extent that there are some poor investments in a

particular company, hopefully they are offset by a lot of better investments, if you like.

MR SMYTH: What percentage of the portfolio is at risk then or may be affected by the investments?

Mr McAuliffe: In terms of our superannuation provision account, about 55 per cent of the portfolio is exposed to equity investments at the moment.

MR SMYTH: And of the equity investments, what percentage of that would you count as risky?

Mr McAuliffe: It is pretty impossible to put any sort of a number on that. We would consider it to be very, very low.

THE CHAIR: That is probably more of a question for when we come back to the annual reports.

MR SMYTH: Yes, it may well be, but you start early!

THE CHAIR: Have we got any more questions about this bill?

MR SMYTH: The focus of the bill, Treasurer, is on the protection of jobs. Of the \$25 million, what percentage will actually be spent on labour costs? I assume some analysis was done?

Ms Smithies: Again, the package has been targeted in such a way as to try and get a high percentage of labour. We have tried to avoid major purchases that have had to come in from overseas or from other states. But you are obviously going to have some proportion of raw materials and you are obviously going to have some proportion of non-labour costs in this. We have not calculated it out, though. We have tried to stay away from the things that are obvious.

MR SMYTH: So all of this work will be put out to tender. None of this will be work done inside departments?

Ms Smithies: No, it is all going out to tender, isn't it, Neil?

Mr Bulless: That is right, yes.

MR SMYTH: For a number of the projects, there are words like "work proposed in this package is to be delivered locally by a range of trades". How do you guarantee that it will just be delivered locally? What stops interstate firms tendering for this business?

Mr Bulless: The narrative around that is based on the consultation we did during the preparation of the package. That was consultation undertaken with ACT Procurement Solutions and, through them, their agencies. It is formed by views around who are the people who typically tender for these packages and an understanding of the markets in which we operate for these types of services and the provision of capital works. So it is informed by our understanding of the market locally, who we would traditionally

deal with and who would typically tender for these packages or works. Some of the works are actually extending contracts that are currently in place, so we already know the people we are dealing with and we know they are locals. So that is why there is a degree of comfort around that narrative.

MR SMYTH: Can the committee know which contracts are to be extended? Which projects are covered by contract extensions?

Mr Bulless: We can take that on notice.

MR SMYTH: And in that contract extension, you will abide by the procurement guidelines?

Mr Bulless: Of course we would.

MR SMYTH: And all the work that goes out to tender will abide by the procurement guidelines?

Mr Bulless: These are packages which are being tendered in normal ways of procurement, either through contract extension or with new tenders.

MR SMYTH: But in the new tenders there is no guarantee that it will go to local organisations; anyone is free to tender?

Mr Bulless: No, that is correct. The tender outcome is based on the advice that comes in as the tender response. As I said, there is a good understanding of who is in the market out there, what their capacity is and what they can deliver, and there is an expectation that most of this will be delivered locally. It is unlikely, in terms of the current job market, that we would see firms coming in to deliver what has been articulated as reasonably small packages of works. These are very much minor new works, not big capital construction projects.

MR SMYTH: So in other words you will not be seeking or intending to change the procurement guidelines to definitely make these packages delivered by local firms?

Mr Bulless: That is probably a question better asked of our procurement people in TAMS, because we do not actually run that process.

MR SMYTH: I have got stacks of questions.

THE CHAIR: Keep going, but we have only got about another three minutes on this.

MR SMYTH: In a number of the packages, particularly on page 21, there is \$180,000 for the Gungahlin police station. It is described as a technical adjustment. What does that mean?

Mr Bulless: You might recall in the budget or the second appropriation there were funds provided for this project, and I think there was another one we did, which was moneys around Stromlo forest park. They were split over a couple of years. The technical adjustment just recognises we are delivering those projects quicker and we

are moving the funding from next year into this year. So they were projects that had already been announced.

MR SMYTH: So it is not because the cost of the project has gone up; you are just bringing it forward?

Mr Bulless: No, it is because the project delivery is faster than was originally provisioned for.

MR SMYTH: There are a number of projects—for instance, on page 22 it talks about roof access systems for our schools. It states that this is to make them compliant with the Australian standards. Treasurer, how long has the government been aware that these 84 ACT public schools have not been compliant?

Ms Gallagher: I think that is probably a question best asked of the minister for education. I would say, though, from previous experience—it does not relate necessarily to the public schools—that as standards change, so does the compliance with them. I note, for example, with our playgrounds, we have got a process to bring our playgrounds up to Australian standards because they are now measured against a standard that is higher than when they were built. It is probably the same issue with our older schools—that the standards now exceed, and we have got a process to bring them up to standard. Again, that is not my portfolio. I think Andrew could offer you some more detail on that.

MR SMYTH: I received a briefing in December on the second appropriation and at that time I was told that in the midyear review some of the figures, for instance, would be the November revenues and the October expenditure figures. Both in the midyear review and the end-of-quarter reports, can you tell me when the figures are taken from in regard to expenditure revenue and the superannuation accounts?

Ms Gallagher: I lost you halfway through that. In a briefing?

MR SMYTH: In a briefing on 9 December last year in regard to the second appropriation, the midyear review came up and I was told that some of the data in that would be data from October and November. Can you tell me the midyear review for the revenue at that stage, government expenditure at that stage, and the superannuation returns? At what date were they for both the midyear review and the quarterly report?

Ms Smithies: I am not sure that the answer would change, though. The midyear review would have been based on expenditure, revenue and balance sheet projections as at the end of October, except that I think we took a little bit of a look at some of our major tax lines, based on the end of November, to publish the midyear review in December. The quarterly report is simply an actual, so the quarterly report is the quarterly report. I am not sure that I understand your question because it is as at 30 December. The projection for the end of year for 2008-09 that is in the quarterly report was based on the midyear review numbers.

MR SMYTH: But isn't the quarterly report meant to be the actuals? That is why you have got 45 days in which to produce it?

Ms Smithies: Yes, that is right. So the number that was provided in the quarterly report for the end of December was based on the end of December figures that we got from all of the agencies and consolidated it from all of the agencies. But it is a point-in-time number.

MR SMYTH: Can you tell me the point in time at which the revenue figure was calculated, the expenditure figure was calculated and the superannuation return was calculated?

Ms Smithies: For what, sorry?

MR SMYTH: For both the midyear review and the quarter.

Ms Smithies: But for the end-of-year outcome for 2007-08 or for 30 December—

MR SMYTH: For 31 December.

Ms Smithies: The numbers as at 31 December were based on information that was as at 30 December. So the half-yearly result was a half-yearly result. The projected end-of-year outcome for 30 June 2009 in that report—

MR SMYTH: No, I want comparisons against actuals.

THE CHAIR: Maybe we need to take this on notice.

MR SMYTH: I will put it on notice.

THE CHAIR: Any more questions will be put on notice. We will now adjourn this hearing. Thank you all very much for your contributions.

The committee adjourned at 2.21 pm.